MADIBENG LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

General Information

Legal form of entity	Local Municiplity
Speaker	Cllr. PB Makhongela
Executive Mayor	Cllr. MP Magongwa
Single Whip	Cllr. SS Malete
Mayoral committee	Cllr. S Klaas Cllr. RL Maluleke Cllr. DS Maimane Cllr. FM Mangoathe Cllr. NM Maswanganyi Cllr. WS Molefe Cllr. BG Montsho Cllr. MG Nqetho Cllr. SDN Nthangeni Cllr. NR Rakolle
Councillors	Cllr. MZ Banda Cllr. EJ Barlow Cllr. LJ Basson Cllr. GD Betha Cllr. TS Bogale Cllr. RNJ Breytenbach Cllr. S Davids Cllr. RB Ellis Cllr. RD Lekoane Cllr. EDF Lourens Cllr. P Maakane Cllr. MM Machette Cllr. BD Mahlaole Cllr. PB Makgabo Cllr. ML Makgale Cllr. SS Malete Cllr. PD Mamogwe Cllr. P Mantu Cllr. NM Maringa Cllr. JS Masina Cllr. PN Masuhlo (Deceased: 21 September 2012) Cllr. K Matli Cllr. SA Matome Cllr. SM Maunatlala Cllr. LE Meso Cllr. DP Mhlanga Cllr. JT Moabi Cllr. ME Moatshe Cllr. TM Modiha Cllr. ETM Modise Cllr. RK Mogotsi Cllr. WS Molefe Cllr. MS Moloi

General Information

	Cllr. S Monnakgotla Cllr. NJ Montsho Cllr. PN More Cllr. FJ Motepe Cllr. G Motlhokapudi Cllr. S Mpongwana Cllr. S Nngubegusha Cllr. LL Nkhoma Cllr. KS Ntshabele Cllr. II Padi Cllr. AG Peplar Cllr. HT Phalwane Cllr. PA Phetlhe Cllr. J Pieterse Cllr. NR Rakolle Cllr. IS Raseroke Cllr. GJ Rossouw Cllr. J Sefudi Cllr. CD Sekhoto Cllr. M Serero Cllr. WI Strauss Cllr. JG Tshabalala (Resigned: 30 November 2012) Cllr. AM Tshidi Cllr. TPJ Tsotetsi Cllr. EE Tanke Cllr. EM Thabane Cllr. I Nkosi Cllr. M Maliwa Cllr. SB Molelu Cllr. MW Motlhasedi
Grading of local authority	4 (medium capacity)
Chief Financial Officer (CFO)	T Nkuna
Accounting Officer	M Juta
Registered office	53 Van Velden Street Brits 0250
Business address	53 Van Velden Street Brits 0250
Postal address	PO Box 106 Brits 0250
Bankers	ABSA Bank Limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the section 126(1) of th Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

The external auditors are responsible for the audit and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page **XXX**.

The annual financial statements set out on page 1 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 28 August 2013 and were signed on its behalf by:

M Juta
Municipal Manager

Audit Committee Report

In terms of the section 166 of Municipal Finance Management Act (Act no.56 of 2003) an Audit Committee is established to serve as an independent governance structure whose function is to provide an oversight role on the system of internal control, financial reporting processes, risk management, governance and the organisation's process for monitoring compliance with laws and regulations and the code of conducts. Furthermore, the Audit Committee assists the Accounting Officer in the effective execution of his responsibilities with the ultimate aim of the achievement of the organisation's objectives and goals. The Audit Committee has adopted its written terms of reference approved by the Council.

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of four (4) members who have been appointed by the council in November 2011. During the financial year, four (4) ordinary meetings and five (5) special meetings were held to deal with urgent matters:

Name of member	Number of meetings attended
HB Mathibela (Acting Chairperson)	9
MA Mmapheto	9
Z Fihlani	05
FJ Van Westhuizen	07

Effectiveness of internal control

The Audit Committee reviewed the work of Internal Audit in terms of the approved Audit Plan. Based on the work of Internal Audit Function and the report of the Auditor-General, there was a breakdown of internal controls reported by auditors and management has made commitment to address the shortcomings. To this end, the Audit Committee can assert that, the internal controls are partially effective to assist management in achieving the desired business objectives.

Effectiveness of internal Audit

The Audit Committee is of the opinion that Internal Audit operates effectively under the circumstances to meet its mandate. However, the Committee has noted with concern the staff shortages and budget to complement its capacity. The resource constraints have been communicated to management for further consideration. Additional resources have been made available by management at the tail end by appointing co-sourced service provider to assist to finalise the audits in the operational plan. The Audit Committee has considered among others the following activities of Internal Audit:

- Three-year rolling strategic Internal Audit plan and an Annual Internal Audit Plan for the year ending 30 June 2013.
- The Internal Audit Charter.
- Internal Audit reports.

While all the internal audit reports are submitted and discussed at the Audit Committee level, the Internal Audit has experience some challenges with slow progress by management in responding to the reports and implementing Internal Audit recommendations. The Audit Committee has recommended to council that Accounting Officer hold senior management responsible for feedback through their performance agreements. The Audit Committee has further recommended to council to conduct a forensic investigation on Supply Chain Management and Revenue Management section due to the gravity of the matters raised in the internal audit reports.

Effectiveness of risk management
The municipality has performed risk assessment during the year and certain additional work in this regard was undertaken by management. While the risk assessment provides platform and basis for risk management, the process still need further development, and to this end, the Audit Committee is of the view that the principles of effective risk management must be championed by management and embedded into the culture of the municipality. Risk Management is an area of concern due to the slow pace adopted by the municipality in ensuring that the risk management principles and concepts are implemented. The Audit Committee has recommended to council to appoint the Chief Risk Officer to bring the expertise required to roll out Enterprise Risk Management in the municipality.

Audit Committee Report

Effectiveness of performanance management system

The municipality has performance management system and policy approved by the Council and performance measurement has been partially undertaken by the administration. The Committee has considered the reports of Internal Audit for performance management and assert that while management has made progress in performance management, more work is needed to improve performance management in the municipality. Effective performance management would have positive spin offs for the people of Madibeng.

The Performance Management Unit needs to be capacitated to assist the municipality to deliver on its mandate. The performance management reports (section 46 reports i.e. mid- year and quarterly reports) must be audited by the Internal Audit before they are submitted to Council, to provide assurance to Council in terms of credible performance information reported.

The Audit Committee has further recommended that there should be a workshop with all the stakeholders (councillors and administration) to discuss performance information in pursuit of uniform understanding regarding National Treasury Framework for Managing Programme Performance Information. Understand and review in year reports, annual performance reports, AFS, audit reports and annual reports which will assist in discharging their oversight and/or monitoring responsibilities. The municipality should improve on employee’s performance appraisals in terms of Municipal Systems Act Sec 54A & Sec 56. We appreciate the fact that employees (senior management) sign employment contracts and annually enter into performance agreements with Council. However, this process must cascaded down to middle management and lower and/or all staff and employees performance is assessed against the set targets on a quarterly basis. .

Audit Committee Report

Quality of monthly/quarterly financial reporting

The Audit Committee was privy to the quarterly financial reports submitted by the Chief Financial Officer during the period under review. To this end, the Audit Committee can assert that the quality of the reports were acceptable. The municipality has made some progress in cash flow management. However, more work is needed to raise the debtors' collection and keep an eye on the expenditure control to avoid potential commitment of irregular, fruitless and wasteful expenditures. The Audit Committee has noted beyond any doubt irregular expenditure on overtime and we have advised the Council to condone the expenditure and report to the relevant authorities such as Auditor General, National Treasury and Department of Local Government. The administration has developed the Turnaround Strategy to improve the cash flow and service delivery. The progress of the Turnaround Strategy will be monitored on a regular basis

Annual financial statements

In fulfilling our responsibilities to review of the Annual Financial Statements, The Audit Committee considered whether they are fairly presented, complete and reflect appropriate accounting principles. Among others the Committee has performed the following:

- Reviewed and discussed with the Accounting Officer and the Chief Financial Officer Auditor the draft Annual Financial Statements.
- Reviewed the resolution of significant and/or unusual accounting and auditing challenges highlighted by management
- Reviewed the nature of any significant adjustment to the financial statements proposed by management or the external auditors
- Reviewed the statement of disclosure in the draft annual financial statements
- Reviewed the nature and impact of any changes in accounting policies during the year
- Reviewed the reasons for major fluctuations in financial performance (current year compared with previous year)
- Reviewed unusual circumstances or events reflected in the Draft annual Financial Statements
- Evaluated the requirements of the MFMA and Treasury Regulations as well as certain statements of Generally Recognized Accounting Practice (GRAP)
- The findings of the Committee in this regard will be tabled in a separate report to council.

Appreciation

The Audit Committee express its sincere appreciation to the Executive Mayor, Municipal Manager, Senior Management and all officials for their unwavering support and interest in the activities of the Committee during the year under review. The support and advice of other stakeholders such as the Office of the Auditor General, National Treasury, and Dept. of Local Government is also acknowledged in pursuing the interest of effective corporate governance and clean audit outcomes within the municipality.

We extend our gratitude to Ms. Seipati Matjele, the Head of Internal Audit and her staff in Internal Audit for their steadfast efforts during the year under review, despite of resources constraints and other frustrations that goes with the job.

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Chairperson of the Audit Committee

Date: ______________________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2013.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:
M Juta

7. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King III Report on Corporate Governance for South Africa. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

8. Bankers

The municipality banks primarily with ABSA Bank Limited.

9. Auditors

Auditor General will continue in office for the next financial period.

MADIBENG LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	9	4 363 551	4 916 835
Other financial assets	6	4 999 019	62 563 434
VAT receivable	10	-	14 831 700
Consumer debtors	11	41 158 804	275 269 351
Other receivables	8	-	1 689 091
Cash and cash equivalents	12	47 692 209	20 721 087
		98 213 583	**379 991 498**
Non-Current Assets			
Investment property	3	2 308 386 919	2 308 386 919
Property, plant and equipment	4	3 955 138 961	4 198 660 997
Heritage assets	5	10 100	10 100
Other financial assets	6	11 186 301	22 036 618
		6 274 722 281	**6 529 094 634**
Total Assets		**6 372 935 864**	**6 909 086 132**
Liabilities			
Current Liabilities			
Other financial liabilities	13	-	5 619 231
Finance lease obligation	14	662 841	580 718
Payables from exchange transactions	17	212 337 428	175 125 640
VAT payable	18	2 535 524	-
Consumer deposits	19	12 954 776	12 887 265
Unspent conditional grants and receipts	15	40 150 949	117 325 389
Bank overdraft	12	9 811 084	12 384 433
		278 452 602	**323 922 676**
Non-Current Liabilities			
Other financial liabilities	13	608 632 698	540 074 994
Finance lease obligation	14	58 053	720 894
Retirement benefit obligation	7	110 533 954	104 296 317
Provisions	16	9 655 954	9 094 074
		728 880 659	**654 186 279**
Total Liabilities		**1 007 333 261**	**978 108 955**
Net Assets		**5 365 602 603**	**5 930 977 177**
Net Assets			
Accumulated surplus		5 365 602 603	5 930 977 177

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Service charges	21	467 902 213	439 371 570
Rental of facilities and equipment		480 444	663 112
Interest received		54 910 149	43 272 638
Licences and permits		3 715 354	5 274 534
Commissions received		1 279 749	8 754 694
Other income	23	26 282 040	20 539 321
Interest received - investment		16 424 130	10 738 501
Property rates		174 982 000	164 654 270
Government grants & subsidies	22	491 047 440	457 746 183
Fines		782 714	793 183
Total revenue		**1 237 806 233**	**1 151 808 006**
Expenditure			
Personnel	25	(267 740 993)	(228 731 047)
Remuneration of councillors	26	(22 988 032)	(19 773 000)
Depreciation and amortisation	30	(474 550 345)	(484 426 373)
Finance costs	31	(78 529 075)	(74 535 013)
Debt impairment	27	(403 709 834)	(110 666 157)
Repairs and maintenance		(32 341 791)	(8 373 303)
Bulk purchases	34	(359 138 252)	(329 088 853)
Contracted services	33	(78 973 597)	(43 709 102)
General Expenses	24	(89 756 307)	(107 332 002)
Total expenditure		**(1 807 728 226)**	**(1 406 634 850)**
Operating deficit		**(569 921 993)**	**(254 826 844)**
Actuarial gain on post employment benefits		3 892 436	5 607 648
Fair value adjustments	29	654 983	1 656 709
		4 547 419	**7 264 357**
Deficit for the year		**(565 374 574)**	**(247 562 487)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	934 564 255	934 564 255
Adjustments		
Prior year adjustments	5 243 975 409	5 243 975 409
Balance at 01 July 2011 as restated	**6 178 539 664**	**6 178 539 664**
Changes in net assets		
Loss for the year	(247 562 487)	(247 562 487)
Total changes	(247 562 487)	(247 562 487)
Balance at 01 July 2012	**5 930 977 177**	**5 930 977 177**
Changes in net assets		
Loss for the year	(565 374 574)	(565 374 574)
Total changes	(565 374 574)	(565 374 574)
Balance at 30 June 2013	**5 365 602 603**	**5 365 602 603**

MADIBENG LOCAL MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		740 972 288	452 071 512
Grants		414 926 840	457 746 183
Interest income		16 424 130	10 738 501
Other receipts		26 282 040	20 539 321
		1 198 605 298	941 095 517
Payments			
Employee costs		(290 729 025)	(248 504 047)
Suppliers		(590 216 763)	(579 918 745)
Finance costs		(78 529 075)	(74 535 013)
		(959 474 863)	(902 957 805)
Net cash flows from operating activities	35	**239 130 435**	**38 137 712**
Cash flows from investing activities			
Purchase of property, plant and equipment - infrastructure	4	(230 776 670)	(207 792 130)
Purchase of property, plant and equipment - movable assets	4	(262 562)	-
Unbundling of assets		(109 319 219)	(816 986)
Proceeds from sale of financial assets		68 414 732	53 150 392
Net cash flows from investing activities		**(271 943 719)**	**(155 458 724)**
Cash flows from financing activities			
Increase other financial liabilities		62 938 473	47 696 545
Finance lease payments		(580 718)	(763 414)
Net cash flows from financing activities		**62 357 755**	**46 933 131**
Net increase/(decrease) in cash and cash equivalents		**29 544 471**	**(70 387 881)**
Cash and cash equivalents at the beginning of the year		8 336 654	78 724 535
Cash and cash equivalents at the end of the year	12	**37 881 125**	**8 336 654**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	608 960 000	1 611 688	**610 571 688**	467 902 213	**(142 669 475)**	Appendix E1
Rental of facilities and equipment	822 000	25 269	**847 269**	480 444	**(366 825)**	Appendix E1
Interest received (trading)	50 000 000	-	**50 000 000**	54 910 149	**4 910 149**	Appendix E1
Licences and permits	3 502 000	69 358	**3 571 358**	3 715 354	**143 996**	Appendix E1
Commissions received	-	-	**-**	1 279 749	**1 279 749**	Appendix E1
Other income	30 463 700	4 318 630	**34 782 330**	26 282 040	**(8 500 290)**	Appendix E1
Interest received - investment	7 140 000	690 732	**7 830 732**	16 424 130	**8 593 398**	Appendix E1
Total revenue from exchange transactions	**700 887 700**	**6 715 677**	**707 603 377**	**570 994 079**	**(136 609 298)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	188 020 000	(53 232 826)	**134 787 174**	174 982 000	**40 194 826**	Appendix E1
Government grants & subsidies	494 843 000	(76 120 000)	**418 723 000**	491 047 440	**72 324 440**	Appendix E1
Transfer revenue						
Fines	2 505 000	-	**2 505 000**	782 714	**(1 722 286)**	Appendix E1
Total revenue from non-exchange transactions	**685 368 000**	**(129 352 826)**	**556 015 174**	**666 812 154**	**110 796 980**	
Total revenue	**1 386 255 700**	**(122 637 149)**	**1 263 618 551**	**1 237 806 233**	**(25 812 318)**	
Expenditure						
Personnel	(225 203 700)	(30 779 637)	**(255 983 337)**	(267 740 993)	**(11 757 656)**	Appendix E1
Remuneration of councillors	(24 400 000)	160 935	**(24 239 065)**	(22 988 032)	**1 251 033**	Appendix E1
Depreciation and amortisation	(40 395 500)	-	**(40 395 500)**	(474 550 345)	**(434 154 845)**	Appendix E1
Finance costs	(38 000 000)	38 000 000	**-**	(78 529 075)	**(78 529 075)**	Appendix E1
Debt impairment	(190 000 000)	79 000 000	**(111 000 000)**	(403 709 834)	**(292 709 834)**	Appendix E1
Repairs and maintenance	(46 255 500)	10 611 304	**(35 644 196)**	(32 341 791)	**3 302 405**	Appendix E1
Bulk purchases	(400 054 000)	35 826 054	**(364 227 946)**	(359 138 252)	**5 089 694**	Appendix E1
Contracted Services	(83 410 000)	(3 940 000)	**(87 350 000)**	(78 973 597)	**8 376 403**	Appendix E1
General Expenses	(133 461 000)	(6 001 617)	**(139 462 617)**	(89 756 307)	**49 706 310**	Appendix E1
Total expenditure	**(1 181 179 700)**	**122 877 039**	**(1 058 302 661)**	**(1 807 728 226)**	**(749 425 565)**	
Operating (deficit)/surplus	**205 076 000**	**239 890**	**205 315 890**	**(569 921 993)**	**(775 237 883)**	
Gain on foreign exchange	-	-	**-**	3 892 436	**3 892 436**	Appendix E1
Fair value adjustments	-	-	**-**	654 983	**654 983**	Appendix E1
	-	**-**	**-**	**4 547 419**	**4 547 419**	
Surplus/(deficit)	**205 076 000**	**239 890**	**205 315 890**	**(565 374 574)**	**(770 690 464)**	
Capital Expenditure	(205 000 000)	-	**(205 000 000)**	(231 884 606)	**(26 884 606)**	
Surplus/(deficits) for the year	**76 000**	**239 890**	**315 890**	**(797 259 180)**	**(797 575 070)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are yearly grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.1 Transfer of functions between entities under common control (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for debt impairment

On receivables, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. The recoverability percentage on receivables is calculated annual per receivables category.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.2 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the muncipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

1.3 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Useful life
Land	Indefinite
Buildings	10 - 40
Bins and Containers	13
Plant and machinery	5 - 18
Furniture and fixtures	5 - 23
Motor vehicles	5 - 13
Office equipment	6 -23
Computer equipment	6 -13
Infrastructure	
• Electricity	5 - 60
• Roads, pravements, Bridges and stormwater	3 - 120
• Sanitation	5 - 40
• Water	5 - 100

Accounting Policies

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from a municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Accounting Policies

1.5 Intangible assets (continued)

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Regular way purchases of financial assets are accounted for at trade date.

1.7 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on the municipality-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Accounting Policies

1.7 Financial instruments (continued)

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

1.7 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality’s continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Financial assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Accounting Policies

1.9 Inventories (continued)

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in uses of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

1.11 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), is recognised in the period in which the service is rendered and is not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Accounting Policies

1.12 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Accounting Policies

1.13 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified receivable fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the receivable;
- defaults or delinquencies in interest and capital repayments by the receivable;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the receivable to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of municipalities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

1.15 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of ‘‘unauthorised expenditure’’

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Accounting Policies

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 July 2012 to 30 June 2013.

1.27 Related parties

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure. Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	01 July 2012 - Impact not Material, Additional disclosures
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	01 July 2012 - Impact not Material, Additional disclosures
• GRAP 103: Heritage Assets	01 April 2012	01 July 2012 - Impact not Material, Additional disclosures
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	01 July 2012 - Impact not Material, Additional disclosures
• GRAP 26: Impairment of cash-generating assets	01 April 2012	01 July 2012 - Impact not Material, Additional disclosures
• GRAP 104: Financial Instruments	01 April 2012	01 July 2012 - Impact not Material, Additional disclosures

2.2 Standards and interpretations effective in the current year

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Change in Accounting Estimates and Errors
GRAP 4	The Effects of changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investment in Associates
GRAP 8	Investment in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in hyper Inflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Lease
GRAP 14	Events after the reporting date
GRAP 16	Investment Property

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of non-cash generating Assets
GRAP 23	Revenue from non exchange transactions
GRAP 24	Budget Information
GRAP 25	Employee Benefits
GRAP 26	Impairment of cash generating assets
GRAP 100	Non-current Aseets held for sale and discontinued operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Intruments

3. Investment property

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	2 308 386 919	-	2 308 386 919	2 308 386 919	-	2 308 386 919

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	2 308 386 919	2 308 386 919

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property	2 308 386 919	2 308 386 919

Pledged as security

No assets were pledged as security.

Fair Value of investment property

The investment property as fair valued by an independent valuator. The fair value of investment property was assessed at the end of the financial year and there was no significant changes in the fair value of the properties.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Income and Expenditure

Rental income	393 522	551 120

4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	17 322 810	-	17 322 810	17 322 810	-	17 322 810
Buildings	6 749 849	(1 543 629)	5 206 220	6 749 849	(1 277 874)	5 471 975
Infrastructure	4 954 348 302	(1 594 970 515)	3 359 377 787	4 916 553 828	(1 135 854 413)	3 780 699 415
Community	256 078 563	(54 333 731)	201 744 832	256 078 563	(43 040 532)	213 038 031
Work in progress	356 289 785	-	356 289 785	163 307 589	-	163 307 589
Other property, plant and equipment	35 724 636	(20 527 109)	15 197 527	35 472 997	(16 651 820)	18 821 177
Total	**5 626 513 945**	**(1 671 374 984)**	**3 955 138 961**	**5 395 485 636**	**(1 196 824 639)**	**4 198 660 997**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfers	Assets written off	Depreciation	Impairment loss	Total
Land	17 322 810	-	-	-	-	-	17 322 81
Buildings	5 471 975	-	-	-	(265 755)	-	5 206 22
Infrastructure	3 780 699 415	-	37 794 474	-	(457 633 081)	(1 483 021)	3 359 377 78
Community	213 038 031	-	-	-	(11 293 199)	-	201 744 83
Work in progress	163 307 589	230 776 670	(37 794 474)	-	-	-	356 289 78
Other property, plant and equipment	18 821 177	262 562	-	(10 922)	(3 875 290)	-	15 197 52
	4 198 660 997	**231 039 232**	**-**	**(10 922)**	**(473 067 325)**	**(1 483 021)**	**3 955 138 96**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Assets written off	Depreciation	Impairment loss	Total
Land	17 322 810	-	-	-	-	-	17 322 81
Buildings	5 737 731	-	-	-	(265 756)	-	5 471 97
Infrastructure	4 175 574 313	-	72 934 455	-	(464 393 718)	(3 415 635)	3 780 699 41
Community	203 457 714	-	21 912 280	-	(10 971 333)	(1 360 630)	213 038 03
Work in progress	50 362 194	207 792 130	(94 846 735)	-	-	-	163 307 58
Other property, plant and equipment	25 618 666	-	-	(2 778 188)	(4 019 301)	-	18 821 17
	4 478 073 428	**207 792 130**	**-**	**(2 778 188)**	**(479 650 108)**	**(4 776 265)**	**4 198 660 99**

Pledged as security

No assets have been pledged as secuirty.

5. Heritage assets

	2013			2012		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets which fair values cannot be reliably measured:						
Art Collections, antiquities and exhibits	10 100	-	10 100	10 100	-	10 100

Reconciliation of heritage assets 2013

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured:		
Art Collections, antiquities and exhibits	10 100	10 100

Reconciliation of heritage assets 2012

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured:		
Art Collections, antiquities and exhibits	10 100	10 100

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

6. Other financial assets

Designated at fair value		
Listed shares	1 668 970	1 186 234
Unit trusts	7 835 053	7 545 753
Other investments	6 681 297	75 868 065
	16 185 320	**84 600 052**

Non-current assets		
Designated at fair value	11 186 301	22 036 618
Current assets		
Designated at fair value	4 999 019	62 563 434

7. Employee benefit obligations

Post retirement Medical aid plan

The municipality offers employee and continuation member the opportunity of belonging to one of the several medical aid scheme, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee and continuation membersship of the medical scheme. upon a member's death-in-service or death-in-retirement, the surving dependants may continue membership of the medical scheme.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	92 348 915	88 419 000
Benefits paid	(2 370 299)	(1 982 757)
Net expense recognised in the statement of financial performance	6 528 283	5 912 672
Closing balance	**96 506 899**	**92 348 915**

Net expense recognised in the statement of financial performance

Current service cost	4 303 132	4 184 000
Interest cost	7 274 574	8 191 000
Actuarial (gains) / losses	(5 049 423)	(6 462 328)
Total included in employee related costs	**6 528 283**	**5 912 672**

Figures in Rand	2013	2012

7. Employee benefit obligations (continued)

Key assumptions used

In estimating the liability for post-employment health care benefits a number of assumptions are required. The IAS19/GRAP25 statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

The key assumptions are summarised below.

	2013	2012
Discount rates used	8,84 %	7,98 %
Expected increase in healthcare costs	7,71 %	6,87 %
Net discount rate	1,04 %	1,04 %

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. IAS19/GRAP25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 8.84% per annum has been used. The corresponding index-linked yield at this term is 2.00%. These rates do not reflect any adjustment for taxation.

This rate was deduced from the JSE Zero Coupon bond yield after the market close on 28 June 2013.

The rate is calculated by using a weighted average of yields for the three components of the liability. For each of the three liability components, yields were determined looking at the average term of the liability component and finding the fixed-interest and index-linked yields at the relevant duration of JSE (Best Decency) Zero Coupon bond yield curve. The three components are as follows:

Components of the discount rate and average term of the liabilities

Component	**Liability Average Term**	**Fixed-Interest Yield**	**Index-Linked Yields**
In-service members' retirement liability	28,19	9,94 %	2,60 %
Death-in-service liability	5,15	7,18 %	0,37 %
Continuation members' liability	8,60	7,74 %	1,58 %
Liability-weighted yields		**8,84 %**	**2,00 %**

7. Employee benefit obligations (continued)

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.71% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.21%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.04% which derives from (8.84%-7.71%)/1.0771.

The expected inflation assumption of 6.21% was obtained from the differential between market yields on index-linked bonds and bonds consistent with the estimated term of the liabilities (2.00%) and those of nominal bonds (8.84%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: (8.84%-0.50%-2.00%)/1.0200.

The next contribution increase was assumed to occur with effect from 1 January 2014.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Figures in Rand	2013	2012

7. Employee benefit obligations (continued)

Long services Award

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	11 947 509	10 380 996
Benefits paid	(1 028 621)	(1 066 793)
Net expense recognised in the statement of financial performance	3 108 167	2 633 306
Closing balance	**14 027 055**	**11 947 509**

Net expense recognised in the statement of financial performance

Current service cost	1 144 751	967 794
Interest cost	806 429	810 832
Actuarial (gains) / losses	1 156 987	854 680
Total included in employee related costs	**3 108 167**	**2 633 306**

Key assumptions used

The key assumptions are summarised below.

Discount rates used	7,27 %	- %
General salary inflation (long term)	6,75 %	- %
Net discount rate	0,49 %	- %

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.27% per annum has been used. This rate does not reflect any adjustment for taxation. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 0.96%. These rates do not reflect any adjustment for taxation.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.
The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 5.75% was obtained from the differential between market yields on index-linked bonds (0.96%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.27%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+7.27%-0.50%)/(1+0.96%))-1.

Thus, a general salary inflation rate of 6.75% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.49%.
It has been assumed that the next salary increase will take place in July 2014.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Other receivables

Long term receivables	-	1 689 091
Non-current assets		
At amortised cost	-	-
Current assets		
At amortised cost	-	1 689 091
	-	**1 689 091**

9. Inventories

Consumable stores	3 935 254	4 018 899
Water	428 297	897 936
	4 363 551	**4 916 835**

10. VAT receivable

VAT	-	14 831 700

11. Consumer

Gross balances		
Rates	241 800 561	264 895 489
Electricity	115 064 258	101 580 430
Water	120 205 042	285 075 011
Sewerage	62 210 960	65 866 980
Refuse	63 637 711	59 946 824
Unallocated Deposits	(5 761 985)	(5 918 226)
Other	293 083 150	194 098 212
	890 239 697	**965 544 720**

Less: Allowance for impairment		
Rates	(229 138 226)	(188 222 138)
Electricity	(109 038 705)	(72 178 223)
Water	(113 910 282)	(202 560 745)
Sewerage	(58 953 168)	(46 801 943)
Refuse	(60 305 204)	(42 595 362)
Other	(277 735 308)	(137 916 958)
	(849 080 893)	**(690 275 369)**

Net balance		
Rates	12 662 335	76 673 351
Electricity	6 025 553	29 402 207
Water	6 294 760	82 514 266
Sewerage	3 257 792	19 065 037
Refuse	3 332 507	17 351 462
Unallocated Deposits	(5 761 985)	(5 918 226)
Other	15 347 842	56 181 254
	41 158 804	**275 269 351**

Figures in Rand	2013	2012
11. Consumer (continued)		
Rates		
Current (0 -30 days)	12 859 623	18 422 412
31 - 60 days	9 050 013	7 963 783
61 - 90 days	7 579 688	6 929 326
> 90 days	212 311 237	231 579 966
Provision for debt impairment	(229 138 226)	(188 222 136)
	12 662 335	**76 673 351**
Electricity		
Current (0 -30 days)	27 520 334	24 736 148
31 - 60 days	14 841 280	13 403 569
61 - 90 days	9 124 836	6 114 093
> 90 days	63 622 808	57 326 620
Provision for debt impairment	(109 083 705)	(72 178 223)
	6 025 553	**29 402 207**
Water		
Current (0 -30 days)	10 785 536	5 732 726
31 - 60 days	6 524 752	4 643 440
61 - 90 days	5 180 381	3 429 151
> 90 days	97 714 373	271 269 694
Provision for debt impairment	(113 910 282)	(202 560 745)
	6 294 760	**82 514 266**
Sewerage		
Current (0 -30 days)	3 195 601	2 861 141
31 - 60 days	2 049 872	2 169 943
61 - 90 days	827 603	1 949 047
> 90 days	56 137 884	58 886 849
Provision for debt impairment	(58 953 168)	(46 801 943)
	3 257 792	**19 065 037**
Refuse		
Current (0 -30 days)	2 211 080	2 132 491
31 - 60 days	1 789 544	1 770 223
61 - 90 days	1 668 562	1 398 881
> 90 days	57 968 525	54 645 229
Provision for debt impairment	(60 305 204)	(42 595 362)
	3 332 507	**17 351 462**
Unallocated Deposits		
> 90 days	(5 761 985)	(5 918 226)
Other (specify)		
Current (0 -30 days)	839 046	4 192 514
31 - 60 days	4 297 603	3 964 695
61 - 90 days	1 146 052	3 851 653
> 90 days	286 800 448	182 089 350
Provision for debt impairment	(277 735 307)	(137 916 958)
	15 347 842	**56 181 254**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

11. Consumer (continued)

Reconciliation of allowance for impairment

	2013	2012
Balance at beginning of the year	(690 275 369)	(591 840 984)
Contributions to allowance	(158 805 524)	(98 434 385)
	(849 080 893)	**(690 275 369)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	11 764	11 764
Bank balances	3 263 328	2 286 628
Short-term deposits	44 417 117	18 422 695
Bank overdraft	(9 811 084)	(12 384 433)
	37 881 125	**8 336 654**

	2013	2012
Current assets	47 692 209	20 721 087
Current liabilities	(9 811 084)	(12 384 433)
	37 881 125	**8 336 654**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
ABSA Bank Cheque Account	8 248 309	57 563 276	23 605 130	(7 284 813)	(14 910 703)	34 461 485
ABSA Bank Cheque Account	4	857	658	4	857	658
ABSA Bank Cheque Account	3 894	4 698	1 161	3 884	4 698	1 161
ABSA Bank Cheque Account	2 983 696	2 007 038	3 016 320	2 983 696	2 007 038	3 016 320
ABSA Bank Cheque Account	209 059	207 350	203 902	209 059	207 350	203 902
Standard Bank Cheque Account	-	66 685	67 633	66 685	66 685	67 633
Standard Bank Call Account	4 323	4 278	4 214	4 323	4 278	4 214
Standard Bank Call Account	785 531	753 084	720 638	785 531	753 084	720 638
Public Investment Corporation	-	-	1 685 113	-	-	1 692 038
ABSA Bank Call Account	427 183	803 940	17 996 207	427 183	830 940	17 996 207
ABSA Bank Call Account	13 877	1 486 642	1 421 757	13 877	1 486 642	1 421 757
ABSA Bank Call Account	96 344	3 038 920	2 905 138	96 344	3 038 920	2 905 138
ABSA Bank Call Account	1 308 580	11 588 814	11 588 814	1 308 580	11 588 814	15 528 832
Investec Capital Markets	755 038	720 017	720 017	755 038	720 017	684 663
ABSA Bank Call Account	986 708	-	-	986 708	-	-
ABSA Bank Call Account	1 627 560	-	-	1 627 560	-	-
ABSA Bank Call Account	1 944 324	-	-	1 944 324	-	-
ABSA Bank Call Account	2 988 536	-	-	2 988 536	-	-
ABSA Bank Call Account	268 547	-	-	268 547	-	-
ABSA Bank Call Account	1 017 225	-	-	1 017 225	-	-
ABSA Bank Call Account	2 407 450	-	-	2 407 450	-	-
ABSA Bank Call Account	5 784 341	-	-	5 784 341	-	-
ABSA Bank Call Account	1 017 225	-	-	1 017 225	-	-
ABSA Bank Call Account	2 644 785	-	-	2 644 785	-	-
FNB	88 899	-	-	88 899	-	-
ABSA Bank Call Account	68 408	-	-	68 408	-	-
ABSA Bank Call Account	20 271 134	-	-	20 271 134	-	-
Total	**55 950 980**	**78 245 599**	**63 936 702**	**40 484 533**	**5 798 620**	**78 704 646**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Other financial liabilities

At amortised cost		
Development Bank of South Africa (DBSA)	-	7 151 265
Public Investment Corporation (PIC)	608 632 698	538 542 960
	608 632 698	**545 694 225**
Total other financial liabilities	**608 632 698**	**545 694 225**
Non-current liabilities		
Development Bank of Southern Africa (DBSA)	-	1 532 034
Public Investment Corporation (PIC)	608 632 698	538 542 960
	608 632 698	**540 074 994**
Current liabilities		
Development Bank of Southern Africa (DBSA)	-	5 619 231

14. Finance lease obligation

Minimum lease payments due		
- within one year	662 841	580 718
- in second to fifth year inclusive	58 052	720 893
	720 893	1 301 611
less: future finance charges	(58 868)	(215 290)
Present value of minimum lease payments	**662 025**	**1 086 321**
Present value of minimum lease payments due		
- within one year	662 841	580 718
- in second to fifth year inclusive	58 053	720 894
	720 894	**1 301 612**
Non-current liabilities	58 053	720 894
Current liabilities	662 841	580 718
	720 894	**1 301 612**

The average lease term is 5 years and the average effective borrowing rate was 12% (2012: 12%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of Water Affairs	108 929	-
Expanded Public Work Programme	1 522 326	3 085 695
Library Grant	800 000	400 000
Municipal Infrastructure Grant	35 456 238	111 576 238
Disaster Management Grant	2 263 456	2 263 456
	40 150 949	**117 325 389**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

15. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	117 325 389	113 137 811
Additions during the year	216 260 000	182 981 934
Income recognition during the year	(293 434 440)	(178 794 356)
	40 150 949	**117 325 389**

The municipality has complied with all the conditions set by the transferring organ of State or the conditions set by the other institutions who made allocations to the municipality. The unspent portion of conditional allocations are disclosed as unspent conditional grants on the face value of the Statement of Financial Position of the municipality.

See note 22 for reconciliation of grants.

These amounts are invested in a ring-fenced investment until utilised.

16. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for the restoration of landfil site	9 094 074	561 880	9 655 954

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Provision for the restoration of landfil site	8 898 431	195 643	9 094 074

Key financial assumptions used for the valuation of the closure costs for the Hartebeesfontein landfill site are as follow:

CPI	5.77%	5.92%
Discount rate	8.02%	8.17%
Nett effective discount rate	2.25%	2.25%

It is estimated that the landfill site has a remaining useful life of 8 years.

Environmental rehabilitation provision

The estimate is in respect of the landfill site currently in operation. The landfill site needs to be rehabilitated in 2021.

17. Payables from exchange transactions

Trade payables	75 871 301	88 776 529
Payments received in advanced	73 880 131	51 472 182
Retentions	34 793 864	21 524 396
Accrued leave pay	15 562 677	5 479 445
Accrued bonus	4 627 207	4 846 382
Other payables	7 602 248	3 026 706
	212 337 428	**175 125 640**

18. VAT payable

Tax refunds payables	2 535 524	-

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

19. Consumer deposits

Consumer deposits	12 954 776	12 887 265

20. Revenue

Service charges	467 902 213	439 371 570
Rental of facilities and equipment	480 444	663 112
Interest received (trading)	54 910 149	43 272 638
Licences and permits	3 715 354	5 274 534
Commissions received	1 279 749	8 754 694
Other income	26 282 040	20 539 321
Interest received - investment	16 424 130	10 738 501
Property rates	174 982 000	164 654 270
Government grants & subsidies	491 047 440	457 746 183
Fines	782 714	793 183
	1 237 806 233	**1 151 808 006**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	467 902 213	439 371 570
Rental of facilities and equipment	480 444	663 112
Interest received (trading)	54 910 149	43 272 638
Licences and permits	3 715 354	5 274 534
Commissions received	1 279 749	8 754 694
Other income	26 282 040	20 539 321
Interest received - investment	16 424 130	10 738 501
	570 994 079	**528 614 370**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	174 982 000	164 654 270
Transfer revenue		
Government grants and subsidies	491 047 440	457 746 183
Fines	782 714	793 183
	666 812 154	**623 193 636**

21. Service charges

Sale of electricity	339 668 694	318 581 211
Sale of water	79 855 092	60 342 349
Sewerage and sanitation charges	21 063 799	34 354 479
Refuse removal	27 314 628	26 093 531
	467 902 213	**439 371 570**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies

Operating grants		
Equitable share	273 733 000	237 404 000
Finance management grant	1 500 000	1 500 000
Municipal system improvement grant	800 000	995 302
	276 033 000	239 899 302
Capital grants		
Expanded public works programme	3 743 369	478 305
Municipal infrastracture grant	198 870 000	205 487 827
Bojanala platinum district municipality	-	80 000
Department of water affairs and forestry	7 801 071	4 169 934
Intergrated national electrfication	4 600 000	7 202 000
Library grants	-	192 271
Disaster management grant	-	236 544
	215 014 440	217 846 881
	491 047 440	**457 746 183**

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Department of Water Affairs and Forestry

Current-year receipts	7 910 000	4 169 934
Conditions met - transferred to revenue	(7 801 071)	(4 169 934)
	108 929	**-**

To subsidise and build capacity in water schemes owned and/or operated by the Department of Water Affairs (DWA) or by other agencies on behalf of the department and transfer these schemes to local government.

Conditions still to be met - remain liabilities (see note 15).

Finance Management Grant

Current-year receipts	1 500 000	1 500 000
Conditions met - transferred to revenue	(1 500 000)	(1 500 000)
	-	**-**

This grant is intended to promote and support reforms in financial mangement by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The conditions of the grant were met. No funds have been withheld.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	205 302
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(995 302)
	-	**-**

This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies. The conditions of the grant were met. No funds have been withheld.

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Expanded Public Works Programme

Balance unspent at beginning of year	3 085 695	1 164 000
Current-year receipts	2 180 000	2 400 000
Conditions met - transferred to revenue	(3 743 369)	(478 305)
	1 522 326	**3 085 695**

This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.

Conditions still to be met - remain liabilities (see note 15).

Library Grant

Balance unspent at beginning of year	400 000	192 271
Current-year receipts	400 000	400 000
Conditions met - transferred to revenue	-	(192 271)
	800 000	**400 000**

To transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through arecapitalised programme at provincial level in support of national and local government initiatives.

Conditions still to be met - remain liabilities (see note 15).

Municipal Infrastructure Grant

Balance unspent at beginning of year	111 576 238	111 576 238
Current-year receipts	198 870 000	163 940 000
Conditions met - transferred to revenue	(198 870 000)	(163 940 000)
Equitable share (held back)	(76 120 000)	-
	35 456 238	**111 576 238**

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

During the 2010/2011 financial the Municipality submitted an application to the National Treasury for the rollover of unspent Municipal Infrastructure Grant which was denied. The amount was to be paid back in two installment which will be paid by holding back of a portion of the equitable share.During 2012/2013 an amount of R76 120 000 was held back on the equitable share. The remaining amount will be deducted from the 2013/2014 allocation of the equitable share.

Conditions still to be met - remain liabilities (see note 15).

Integrated National Electrification Programme

Current-year receipts	4 600 000	7 202 000
Conditions met - transferred to revenue	(4 600 000)	(7 202 000)
	-	**-**

This grant is intended to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply. The conditions of the grant were met. No funds have been withheld.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Bojanala Platinum District Municipality Grant

Current-year receipts	-	80 000
Conditions met - transferred to revenue	-	(80 000)
	-	**-**

Disaster Management Grant

Balance unspent at beginning of year	2 263 456	-
Current-year receipts	-	2 500 000
Conditions met - transferred to revenue	-	(236 544)
	2 263 456	**2 263 456**

This grant is intended to provide for immediate release of funds for disaster response.

Conditions still to be met - remain liabilities (see note 15).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

23. Other income

Advertising hoarding	209 296	217 884
Cemetery fees	777 843	851 234
Electrical sales departmental trading	9 748 186	9 291 705
Insurance commision	696 725	2 412 647
Notice fees	1 827 834	99 380
Other income	386 379	181 445
VAT recovery	-	2 204 445
Bulk services	208 959	97 426
Building plans	989 401	705 480
Reconnection fees	5 660 867	1 272 597
Refuse removal departmental sales	2 923 305	1 381 901
Service connections	450 569	721 986
Tender document fees	1 230 147	478 212
Town planning	298 841	190 990
Valuation fees	26 812	29 885
Water sales departmental trading	846 876	402 104
	26 282 040	**20 539 321**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

24. General expenses

Advertising	922 745	614 511
Auditors remuneration	3 727 815	5 789 019
Bank charges	1 895 299	1 282 365
Consulting and professional fees	18 437 040	9 388 851
Consumables	1 592 335	404 487
Discount allowed	-	1 209 080
Refreshments	550 562	695 443
Insurance	2 345 901	2 462 012
Lease rentals on operating lease	8 672 006	10 435 760
Water and electricity	3 901 250	9 260 931
Licence fees	1 231 705	1 366 575
Protective clothing	409 731	547 659
Subscriptions and membership fees	602 358	918 593
Telephone and fax	3 507 870	2 926 793
Transport - Fuel	4 319 238	4 309 849
Training	2 502 032	938 865
Travel and accomodation	3 338 226	1 813 025
Formalisation of townships	611 653	1 684 332
Licence fees	3 565 876	2 266 023
Stock written off	27 627	183 332
Training levy	2 427 950	1 943 009
Other expenses	15 228 364	25 215 976
Assistance to indigents	2 122 072	9 561 278
Printing of statements	1 343 903	1 851 005
Social programmes	163 229	4 085 561
Chemicals	6 309 520	6 177 668
	89 756 307	**107 332 002**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

25. Employee related costs

Acting allowances	3 516 152	5 645 441
Basic	140 932 009	124 514 628
13th cheques	10 572 488	9 631 335
Housing benefits and allowances	1 193 169	1 157 556
Industrial council	64 891	42 706
Leave pay provision charge	15 002 086	4 179 968
Medical aid - company contributions	18 935 375	16 634 091
Overtime payments	27 415 594	25 287 723
Provident and pension fund	30 914 045	27 079 461
Stand by allowances	1 460 061	1 414 188
Transitional allowances	15 264	18 681
Telephone/Celephone allowance	278 807	275 440
Travel allowances	16 090 910	11 605 598
UIF	1 350 142	1 244 231
	267 740 993	**228 731 047**

Remuneration of municipal manager

Annual remuneration	766 888	289 569
Allowances	316 891	141 918
Contributions	181 109	60 591
	1 264 888	**492 078**

Remuneration of chief financial officer

Annual remuneration	773 134	818 983
Allowances	345 343	183 863
Contributions	1 712	1 497
	1 120 189	**1 004 343**

Remuneration of chief operating officer

Annual remuneration	390 434	568 180
Allowances	118 589	264 116
Contributions	94 551	163 976
	603 574	**996 272**

Remuneration of director community services

Annual remuneration	512 465	716 230
Allowances	348 387	175 655
Contributions	164 404	137 817
	1 025 256	**1 029 702**

Remuneration of director corporate support services

Annual remuneration	192 470	731 046
Allowances	125 122	182 456
Contributions	53 854	124 520
	371 446	**1 038 022**

Remuneration of director public safety

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
25. Employee related costs (continued)		
Annual remuneration	589 334	92 000
Allowances	220 036	31 929
Contributions	168 610	20 489
	977 980	**144 418**

Remuneration of director infrastructure and technical services

Annual remuneration	659 377	485 938
Allowances	224 766	245 824
Contributions	176 228	125 761
	1 060 371	**857 523**

Remuneration of director local economic development

Annual remuneration	631 948	605 531
Allowances	228 535	229 675
Contributions	130 172	121 801
	990 655	**957 007**

Remuneration of director human settlement

Annual remuneration	621 523	45 000
Allowances	238 332	18 740
Contributions	169 423	13 307
	1 029 278	**77 047**

26. Remuneration of councillors

Executive Mayor	712 465	690 405
Speaker	556 098	524 619
Single Whip	522 587	578 649
Mayoral Committee Members	5 659 137	4 493 236
Councillors	15 537 745	13 486 091
	22 988 032	**19 773 000**

The remuneration of the councillors, directors and officials salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

27. Debt impairment

Debt impairment	158 954 631	110 666 157
Bad debts written off	244 755 203	-
	403 709 834	**110 666 157**

28. Investment revenue

Interest revenue		
Investments	15 969 317	10 565 264
Bank	454 813	173 237
	16 424 130	**10 738 501**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

29. Fair value adjustments

Investment property (Fair value model)	-	490 000
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	654 983	1 166 709
	654 983	**1 656 709**

30. Depreciation and amortisation

Property, plant and equipment	474 550 345	484 426 373

31. Finance costs

Non-current borrowings	70 448 070	64 202 796
Finance leases	-	230 078
Bank overdraft	-	930 813
Defined benefit plan	8 081 005	9 171 326
	78 529 075	**74 535 013**

32. Auditors' remuneration

Fees	3 400 570	5 615 041
Expenses	327 245	173 978
	3 727 815	**5 789 019**

33. Contracted services

Waste removal	18 380 583	156 044
Meter readings	1 464 600	1 188 717
Water tankers	12 605 926	9 035 727
Security services	25 205 500	11 430 569
Other contractors	21 316 988	21 898 045
	78 973 597	**43 709 102**

34. Bulk purchases

Electricity	315 309 525	286 876 378
Water	43 828 727	42 212 475
	359 138 252	**329 088 853**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

35. Cash generated from operations

Surplus / (deficit)	(565 374 574)	(247 562 487)
Adjustments for:		
Depreciation and amortisation	474 550 345	484 426 373
Acturial gain on post employee benefits	(3 892 436)	(5 607 648)
Fair value adjustments	(654 983)	(1 656 709)
Interest income	(54 910 149)	(43 272 638)
Dividends received	(76 120 600)	-
Debt impairment	403 709 834	110 666 157
Movements in provisions	6 799 517	16 073 067
Vat receivable	14 831 700	(14 831 700)
Changes in working capital:		
Inventories	553 284	(1 314 291)
Receivables from exchange transactions	-	39 912
Other receivables	1 689 091	10 640 094
Consumer debtors	75 309 023	(163 288 157)
Payables from exchange transactions	37 211 788	(93 000 111)
VAT	2 535 524	(20 538 321)
Unspent conditional grants and receipts	(77 174 440)	4 187 578
Consumer deposits	67 511	3 176 593
	239 130 435	**38 137 712**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	113 899 266	34 911 213
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	13 850 000	61 607 384

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

37. Contingencies

The municipality received a summons in which the plaintiff alleged in their particulars of claim that her minor child suffered serious injuries as result of the municipality’s negligence to take care of the electrical wires on the road of Phase 3 at Oukasie. The plaintiff claim an amount of R 100 000 against the municipality. The matter has been postponed to allow the plaintiff to submit the medical report.

The Plaintiff is claimingan amount of R 50 000,00 for injuries she suffered and medical expenses she incurred by falling down and injured the whole of her left side due to a fault in the road at 33 Murray Street, Brits. The matter has been postponed to allow the plaintiff to submit medical report.

On the 25th May 2012 a summons was served to the municipality wherein Izma Beleggings (Pty) Ltd is seeking an order directing the municipality to pay amongst others the amount of R 5 000 000,00 to the transferring attorneys in terms of the agreement of sale of property entered into and signed by the parties. The municipality instructed Gildenhuys Lessing & Malatji attorneys to defend the matter.

Multi Fleet Services (Pty) Ltd summoned the municipality on the 28th May 2012, wherein the plaintiff seeks amongst others the return of the tractors or alternatively to pay the sum of R 212 000, 00 which is alleged to be the value of the two tractors. The municipality instructed Ngwenya attorneys to defend the municipality in this matter.

On the 4th of April 2012 the municipality received a summons from Kosmos Ridge Home Owners Association in respect of which they claim that the municipality didn’t complied with the undertaking on the 10th of August 2011 after a court order were issued on the 25th of February 2005. They said the municipality failed to install services, and they claim past and future expenses incurred as a result of non-compliances of the court order by the municipality. The plaintiff sue the municipality for an amount of R 848 354, 07 and the future amount to be determined. The municipality instructed Maenetja attorneys to defend the matter for the municipality. The attorneys served the opponent with the notice of exception, and they served them with the amended particulars of claims.

The municipality received a summons for payment of R4 009 584.55 which GR Makopo CC alleged to be for compensation for breach of contract by the municipality.

The municipality received a summons for payment of R5 098 901,94 which Hloyisane Electrical Technologies alleged to be for services rendered to the muicipality.

On 12th April 2007 the municipality and Traffic Management Technologies entered into a written agreement for the provision of a comprehensive back office for traffic admistration, TMT summons for payment of R3 260 400.00 which is alleged to be for breach of contract.

Phaphir Business Enterprise CC sued the Municipality for an amount of R2 467 958.80 which is alleged to be a shortfall for payment of services rendered from April 2006 to March 2008 for the removal services in the households, businesses, services container and street cleaning and removal of illegally dumped waste.

On the 20th July 2005, the municipality entered into a cotract with MK Construction for the construction of civil engineering services in Oukasie Ext 5 and Environs. It is alleged that the municipality cancelled the contract on the 30th May 2008 due to lack of performance without terms of warning. As a result of the municipality's failure to comply with its undertaking, MK Construction issued summons against the Municipality for a payment amount of R1 714 327.77 which is alleged to be damages suffered by the plaintiff.

The municipality received a summons for payment of R1 102 901,90 which Sechaba Traffic Solutions CC alleged to be for commission on traffic fines collected.

The municipality received a summons for payment of R4 169 240,42 which is alleged to be for damages caused by accidents resulting from the municipality's failure to fill the potholes on the R511 road.

The municipality received a summons for payment of R1 011 652,20 which is alleged to be for professional services rendered to the muicipality.

Phaphiri Business Enterprise CC sued the Municipality for over R2 000 000,00 in respect of underpayment in terms of refuse Removal contract. it is alleged that the Municipality failed to conduct house count every six months and considered CPI in order to adjust fees payable for servicdres rendered.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

37. Contingencies (continued)

DDP Valuers (Pty) Ltd issued summons for payments of R1 079 242,92 which is alleged to be for supplementary and ad hoc valuations performed

Summons were served to the Municipality wherein Mr. Norman Van Rheede is claiming an amount of R16 773,82 which is for damage to his vehicle allegedly caused by collision with a pot hole at Old Rustenburg Road, near Brits Pale, Hartbeesspoort.

Summons were served to the Municipality wherein Mr. De Bruyn is claiming an amount of R250 000,00 which is alleged to be loss suffered as a result of the Municipality's breach of its statutory and/or legal duty to erect a stop sign and/or to maintain the road signs and in particular to ensure the visibility of warning signs amongst others.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation

38. Related parties

Relationships

Remuneration of key management personnel	Refer to note 25 & 26 on compensation to Municipal Manager, Chief Financial Officer, Senior Managers, Mayoral Committee and Other Councillors

39. Prior period errors

The correction of the error(s) results in adjustments as follows:

Statement of Finanncial Performance		
Service Charges (reversal of revenue incorrectly recognised)	-	(1 088 454)
Rental of facilities and equipment (recognition of revenue received and not captured on the system)	-	3 514
Licences and permits (recognition of revenue received and not captured on the system)	-	1 189
Other income (recognition of revenue received and not captured on the system)	-	1 471 068
Property Rates (recognition of rates not charged on costumers due to supplementary rolls not correctly implemented)	-	2 117 561
Government grants and subsidies	-	1 009 036
Fines (recognition of revenue received and not captured on the system)	-	339 976
Personnel (accrual of overtime worked and Clearing of Suspense account on employee costs)	-	1 903 269
Remuneration of councillors (recognition of councillors allowances not captured on the system)	-	(4 000)
Depreciation and amortisation (Unbundling of assets)	-	(446 600 965)
Finance cost (recognition of long services award)	-	(721 450)
Debt impairment (recalculation of debt impairment and long term debtors written off)	-	29 781 791
Repairs and maintenance (correction of creditors and accrualsand revesal of expenses captured twice)	-	10 146 034
Bulk Purchases (correction of creditors and accruals and reversal of incorrect posting to votes)	-	(11 217 731)
Contracted services (correction of creditors and accruals and reversal of incorrect posting to votes)	-	(1 979 900)
General Expenses (correction of creditors and accruals and reversal of incorrect posting to votes)	-	(10 353 841)
Actruail gain on post employment benefits (recognition of long services award)	-	(854 680)

Figures in Rand	2013	2012

39. Prior period errors (continued)

Statement of Financial Position		
Property, plant and equipment	-	2 600 580 788
Investment property	-	2 217 137 919
Heritage assest	-	10 100
Cash and cash equivalent	-	(33 558 465)
Accumulated surplus	-	4 818 086 654
Trade and other receivable	-	40 410 773
Provision for long services award	-	(11 947 509)
Vat receivable	-	(769 611)
Other financial liabilties	-	89 382
Trade and other payables	-	60 307 898
unspent conditional grants	-	(41 947 826)
Other receivables	-	(12 226 794)

40. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other Financial Liabilities	-	-	-	-
Finance lease obligation	662 841	58 053	-	-
Payables from exchange transactions	215 093 424	-	-	-
Consumer deposit	12 954 776	-	-	-
Bank overdraft	7 284 814	-	-	-

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial assets	-	-	-	-
Fianace lease obligation	580 718	720 894	-	-
Payable from exchange transactions	172 599 371	-	-	-
Consumer deposit	12 887 265	-	-	-
Bank overdraft	14 910 703	-	-	-

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

40. Risk management (continued)

Credit risk

cash with major banks. Credit Risk related to consumer debtors is managed in accordance with the Councils credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2013	2012
Other financial assets	16 185 320	84 600 052
Consumer Debtors	41 158 804	275 269 352
Other receivables	229 725	1 689 091
Cash and cash equivalents	47 692 209	20 721 087

41. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

42. Events after the reporting date

Management is not aware of any events that occurred after year end that may have an impact on the financial statements.

43. Unauthorised expenditure

There were no unauthorised expenditure detected during the year under review.

44. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - Interest on overdue accounts	168 978	2 073 405

45. Irregular expenditure

Add: Irregular Expenditure - current year	2 669 482	-

Analysis of expenditure awaiting condonation per age classification

Current year	2 669 482	-

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
The irregular expenditure relates to goods and services that were purchased outside the normal procurement processes.	No steps were taken	2 669 482

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

No contributions were made to organised local government during the year.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Opening balance	4 102 987	1 462 565
Current year fee	3 727 815	5 615 041
Amount paid - current year	(7 804 637)	(2 974 619)
	26 165	**4 102 987**

PAYE and UIF

Opening balance	2 778 024	2 368 368
Current year fee	34 513 144	32 864 161
Amount paid - current year	(37 291 168)	(32 454 505)
	-	**2 778 024**

Pension and Medical Aid Deductions

Opening balance	1 753 558	1 534 442
Current year fee	49 849 420	20 619 170
Amount paid - current year	(51 602 978)	(20 400 054)
	-	**1 753 558**

VAT

VAT receivable	-	14 831 700
VAT payable	2 535 524	-
	2 535 524	**14 831 700**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Barlow EJ	53	-	53
Basson LJ	1 322	-	1 322
Davids D	744	104	848
Klass S	644	2 834	3 478
Komane MT	2 180	2 871	5 051
Lekoane S	1 655	5 537	7 192
Letwaba E	5 209	91	5 300
Maakane P	65	3 095	3 160
Mahlakwana RE	1 297	16 285	17 582
Makhongela PB	9 438	28 758	38 196
Maswanganye TE	3 013	23 423	26 436
Maunatlala SM	43	2 020	2 063
Meso MG	2 999	52 681	55 680
Mncina ME	1 096	24 095	25 191
Modise ETM	65	3 095	3 160
Mogotsi RK	1 757	8 533	10 290
Mogotsi SM	526	366	892
Molefe WS	6 593	3 933	10 526
Peplar K	6 554	801	7 355
Rossouw DF	-	3 618	3 618
Sefudi AM	1 529	186	1 715
Strauss WI	2 656	57 908	60 564
Tlhopane M	1 599	364	1 963
Tsotetsi TPJ	64	3 049	3 113
Moloi MS	979	52	1 031
Motepe FJ	1 838	30 150	31 980
Ncongwane SE	99	-	99
Ndonyane OS	1 711	18 550	20 261
Nkosi I	3 025	20 832	23 857
Nqetho MC	-	-	-
Nthasngeni SDN	65	3 095	3 160
Ntshabele KS	64	3 049	3 113
	65 475	**277 782**	**388 775**

47. Distribution losses

Electricity

Year	Units Purchased	Units sold	Loss in units	Loss in percentage
2013/06/30	531 796 582,00	369 091 935,00	162 704 647,00	30,60 %

Electricity distribution loss calculated value amounts to R195,790,431.17.

Appendix A
June 2013

Schedule of external loans as at 30 June 2013

	Loan Number	Redeemable	Balance at 30 June 2012 Rand	Received during the period Rand	Redeemed written off during the period Rand	Interest Rand	Balance at 30 June 2013 Rand
Development Bank of South Africa							
Project 10927/101	10927/101	2013/09/30	4 218 089	-	(4 464 724)	246 634	-
Project 13184/101	13184/101	2012/12/31	83 010	-	(90 869)	7 910	50
Project 10926/103	10926/103	2012/09/30	2 850 219	-	(2 954 008)	103 789	-
Project 103290/4	103290/4	2011/03/31	-	-	-	-	-
			7 151 318	**-**	**(7 509 601)**	**358 333**	**50**
Public Investment Corporation							
BR25	BR25	30/06/2030	222 893 371	-	-	28 661 248	251 554 619
BR26	BR26	30/06/2030	217 016 532	-	-	27 905 612	244 922 144
BR20	BR20	30/06/2020	98 633 057	-	-	13 522 818	112 155 875
			538 542 960	**-**	**-**	**70 089 678**	**608 632 638**
Lease liability							
ABSA Bank	074475740	2012/08/31	-	-	-	-	-
ABSA Bank	074475758	2012/08/31	-	-	-	-	-
ABSA Bank	073859722	2012/06/04	-	-	-	-	-
Fleet Africa	Gladiator	2014/07/31	-	-	-	-	-
Fleet Africa	Rescue Pumper	2012/07/31	-	-	-	-	-
			-	**-**	**-**	**-**	**-**
Total external loans							
Development Bank of South Africa			7 151 318	-	(7 509 601)	358 333	50
Public Investment Corporation			538 542 960	-	-	70 089 678	608 632 638
Lease liability			-	-	-	-	-
			545 694 278	**-**	**(7 509 601)**	**70 448 011**	**608 632 688**

Appendix B
June 2013

Analysis of property, plant and equipment as at 30 June 2013

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	17 322 810	-	-	-	-	**-**	**17 322 810**	-	-	-	-	-	**-**	17 322 810
Buildings	6 749 849	-	-	-	-	**-**	**6 749 849**	(1 277 874)	-	-	(265 756)	-	**(1 543 630)**	5 206 219
	24 072 659	**-**	**-**	**-**	**-**	**-**	**24 072 659**	**(1 277 874)**	**-**	**-**	**(265 756)**	**-**	**(1 543 630)**	**22 529 029**
Infrastructure														
Roads, Pavements, Storm water & Bridges	1 954 132 974	-	-	22 856 210	-	**-**	**1 976 989 184**	(345 129 373)	-	-	(80 422 487)	(910 422 487)	**(1 335 974 347)**	641 014 837
Electrical Networks	2 297 217 158	-	-	-	-	**-**	**2 297 217 158**	(705 707 477)	-	-	(356 121 781)	-	**(1 061 829 258)**	1 235 387 900
Sanitation	104 836 595	-	-	11 445 153	-	**-**	**116 281 748**	(18 606 679)	-	-	(5 819 998)	(567 593)	**(24 994 270)**	91 287 478
Water Supply Networks	560 467 101	-	-	3 493 111	-	**-**	**563 960 212**	(66 410 885)	-	-	(15 273 334)	-	**(81 684 219)**	482 275 993
Work in progress	163 879 299	230 776 670	-	(37 794 474)	-	**-**	**356 861 495**	-	-	-	-	-	**-**	356 861 495
	5 080 533 127	**230 776 670**	**-**	**-**	**-**	**-**	**5 311 309 797**	**(1 135 854 414)**	**-**	**-**	**(457 637 600)**	**(910 990 080)**	**(2 504 482 094)**	**2 806 827 703**
Community Assets														
Community Facilities	166 051 121	-	-	-	-	**-**	**166 051 121**	(31 066 624)	-	-	(6 929 865)	-	**(37 996 489)**	128 054 632
Sports and Recreation Facilities	90 027 442	-	-	-	-	**-**	**90 027 442**	(11 973 908)	-	-	(4 363 334)	-	**(16 337 242)**	73 690 200
	256 078 563	**-**	**-**	**-**	**-**	**-**	**256 078 563**	**(43 040 532)**	**-**	**-**	**(11 293 199)**	**-**	**(54 333 731)**	**201 744 832**

Appendix B
June 2013

Analysis of property, plant and equipment as at 30 June 2013

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Other	10 100	-	-	-	-	**-**	**10 100**	-	-	-	-	-	**-**	10 100
	10 100	**-**	**-**	**-**	**-**	**-**	**10 100**	**-**	**-**	**-**	**-**	**-**	**-**	**10 100**
Specialised vehicles														
Other assets														
General vehicles	11 404 630	-	-	-	-	**-**	**11 404 630**	(5 821 826)	-	-	(1 183 104)	-	**(7 004 930)**	4 399 700
Plant & equipment	4 112 525	-	-	-	-	**249 912**	**4 362 437**	(1 122 149)	-	-	(622 555)	-	**(1 744 704)**	2 617 733
Computer Equipment	2 521 614	32 766	-	-	-	**1 038 247**	**3 592 627**	(1 173 418)	-	-	(467 565)	-	**(1 640 983)**	1 951 644
Furniture & Fittings	10 047 378	43 247	-	-	-	**445 903**	**10 536 528**	(5 626 604)	-	-	(1 054 206)	-	**(6 680 810)**	3 855 718
Office Equipment	1 560 749	175 627	-	-	-	**861 547**	**2 597 923**	(868 110)	-	-	(309 662)	-	**(1 177 772)**	1 420 151
Bins and Containers	3 230 492	-	-	-	-	**-**	**3 230 492**	(2 029 412)	-	-	(248 499)	-	**(2 277 911)**	952 581
	32 877 388	**251 640**	**-**	**-**	**-**	**2 595 609**	**35 724 637**	**(16 641 519)**	**-**	**-**	**(3 885 591)**	**-**	**(20 527 110)**	**15 197 527**
Total property plant and equipment														
Land and buildings	24 072 659	-	-	-	-	**-**	**24 072 659**	(1 277 874)	-	-	(265 756)	-	**(1 543 630)**	22 529 029
Infrastructure	5 080 533 127	230 776 670	-	-	-	**-**	**5 311 309 797**	(1 135 854 414)	-	-	(457 637 600)	(910 990 080)	**(2 504 482 094)**	2 806 827 703
Community Assets	256 078 563	-	-	-	-	**-**	**256 078 563**	(43 040 532)	-	-	(11 293 199)	-	**(54 333 731)**	201 744 832
Heritage assets	10 100	-	-	-	-	**-**	**10 100**	-	-	-	-	-	**-**	10 100
Other assets	32 877 388	251 640	-	-	-	**2 595 609**	**35 724 637**	(16 641 519)	-	-	(3 885 591)	-	**(20 527 110)**	15 197 527
	5 393 571 837	**231 028 310**	**-**	**-**	**-**	**2 595 609**	**5 627 195 756**	**(1 196 814 339)**	**-**	**-**	**(473 082 146)**	**(910 990 080)**	**(2 580 886 565)**	**3 046 309 191**
Agricultural/Biological assets														
Intangible assets														
Investment properties														
Investment property	2 686 675 279	-	-	-	-	**-**	**2 686 675 279**	-	-	-	-	-	**-**	2 686 675 279
	2 686 675 279	**-**	**-**	**-**	**-**	**-**	**2 686 675 279**	**-**	**-**	**-**	**-**	**-**	**-**	**2 686 675 279**
Total														
Land and buildings	24 072 659	-	-	-	-	**-**	**24 072 659**	(1 277 874)	-	-	(265 756)	-	**(1 543 630)**	22 529 029
Infrastructure	5 080 533 127	230 776 670	-	-	-	**-**	**5 311 309 797**	(1 135 854 414)	-	-	(457 637 600)	(910 990 080)	**(2 504 482 094)**	2 806 827 703
Community Assets	256 078 563	-	-	-	-	**-**	**256 078 563**	(43 040 532)	-	-	(11 293 199)	-	**(54 333 731)**	201 744 832
Heritage assets	10 100	-	-	-	-	**-**	**10 100**	-	-	-	-	-	**-**	10 100
Other assets	32 877 388	251 640	-	-	-	**2 595 609**	**35 724 637**	(16 641 519)	-	-	(3 885 591)	-	**(20 527 110)**	15 197 527
Investment properties	2 686 675 279	-	-	-	-	**-**	**2 686 675 279**	-	-	-	-	-	**-**	2 686 675 279
	8 080 247 116	**231 028 310**	**-**	**-**	**-**	**2 595 609**	**8 313 871 035**	**(1 196 814 339)**	**-**	**-**	**(473 082 146)**	**(910 990 080)**	**(2 580 886 565)**	**5 732 984 470**

Appendix E(1)
June 2013

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2013

	Forecast # 1 2013 Act. Bal. Rand	Forecast # 1 2013 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Government grants and subsidies	491 047 440	418 723 000	72 324 440	17,3	Unspent conditional grant re-payment to National Treasury which was adjusted during the adjustment budget.
Property rates	174 982 000	134 787 174	40 194 826	29,8	Rebates were increased during the adjustment budget, which resulted in under budgeting.
Service charges	467 902 213	610 571 688	(142 669 475)	(23,4)	High revenue projection, surcharges not applied/charged, poor collection of prepaid electricity.
Rental of facilities and equipment	480 444	847 269	(366 825)	(43,3)	Lack of maintance of rental facilities which lead to dicline in use of facilities
Interest received	54 910 149	50 000 000	4 910 149	9,8	
Licences and permits	3 715 354	3 571 358	143 996	4,0	
Commissions received	1 279 749	-	1 279 749	-	
Fines	782 714	2 505 000	(1 722 286)	(68,8)	Poor controls on traffic fines issued.
Other income	26 282 040	34 782 330	(8 500 290)	(24,4)	Disposal of assets that was budgeted for, but was not done
Interest received - investment	16 424 130	7 830 732	8 593 398	109,7	Delays of spending relating to conditional grants
fines	-	-	-	-	
	237 806 233	263 618 551	(25 812 318)	(2,0)	
Expenses					
Personnel	(267 607 148)	(255 983 337)	(11 623 811)	4,5	
Remuneration of councillors	(22 988 032)	(24 239 065)	1 251 033	(5,2)	
Depreciation	(474 550 345)	(40 395 500)	(434 154 845)	074,8	Unbundling of infrastrature assets.
Finance costs	(78 529 075)	-	(78 529 075)	-	
Debt impairment	(403 709 834)	(111 000 000)	(292 709 834)	263,7	Bads debts written off during the which were not budgeted for.
Repairs and maintenance	(32 341 791)	(35 644 196)	3 302 405	(9,3)	
Bulk purchases	(359 138 252)	(364 227 946)	5 089 694	(1,4)	
Contracted Services	(78 973 597)	(87 350 000)	8 376 403	(9,6)	
General Expenses	(89 890 153)	(139 462 617)	49 572 464	(35,5)	Over budgeting on expenditures.
	807 728 227)	058 302 661)	(749 425 566)	70,8	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	-	-	-	-	
Gain or loss on exchange differences	3 892 436	-	3 892 436	-	
Fair value adjustments	654 983	-	654 983	-	
	4 547 419	-	4 547 419	-	
Net surplus/ (deficit) for the year	(565 374 575)	205 315 890	(770 690 465)	375,4)	

Appendix E(2)
June 2013

Budget Analysis of Capital Expenditure as at 30 June 2013

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Infrastructure	0 776 670	5 000 000	5 776 670)	**(13)**	Difference between the budgeted amount and the appointed amount.
Other Property, plant and equipment	262 562	-	(262 562)	**-**	Other assets were not budgeted for during the budget.
	1 039 232	**5 000 000**	**6 039 232)**	**(13)**	

Municipal Owned Entities
Other charges